PIMCO

Is now the time to move cash off the sidelines?

During the early stages of past Federal Reserve rate-hiking cycles, investors may have been rewarded for staying in cash, but once that cycle is over, fixed income returns have historically soared.

A company of Allianz

Charting fixed income returns during and after hiking cycles

WHAT THE CHART SHOWS

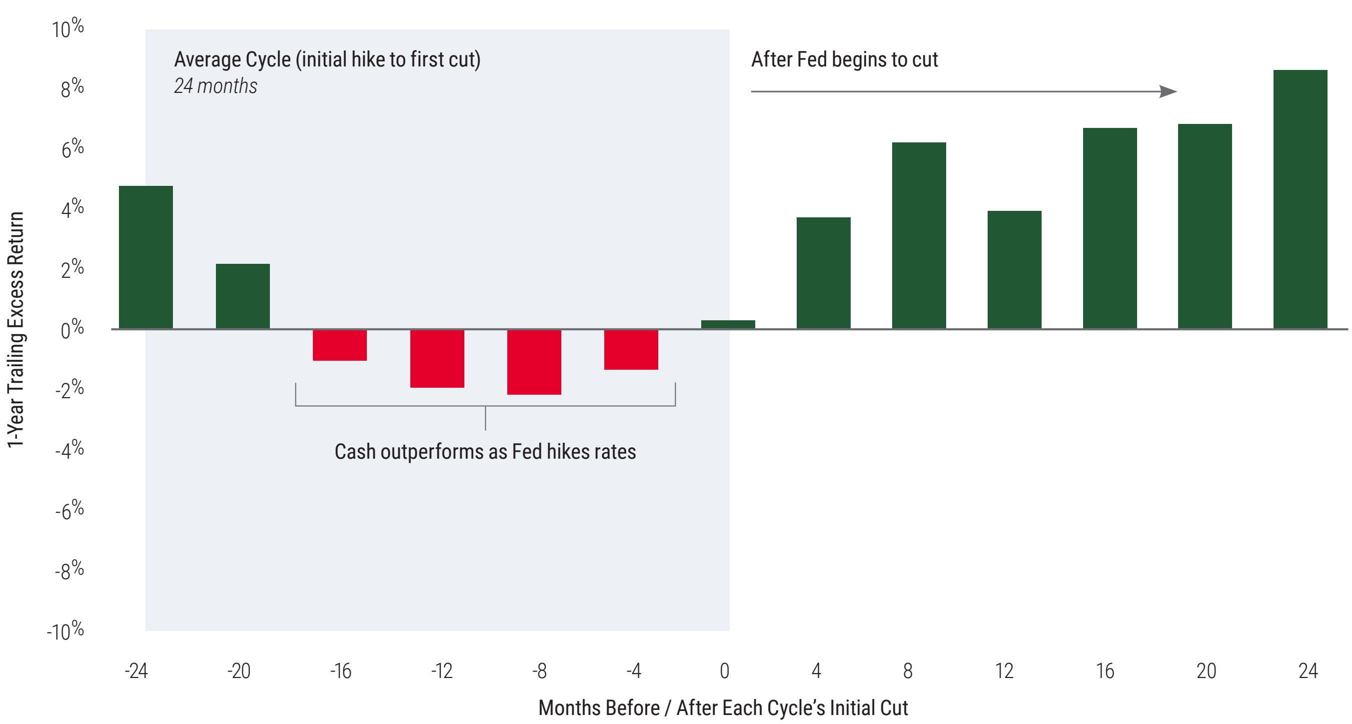
Trailing 12-month return on a diversified fixed income portfolio compared to cash in months before and after the end of hiking cycles since 1980. Green (red) bars show outperformance (underperformance) versus cash.

WHAT IT MEANS FOR INVESTORS

At this point in interest rate cycles, bonds have tended to outperform cash. Fed rate cuts have historically supported fixed income performance while also eroding cash returns.

Fixed income performance across hiking cycles

12-month trailing return: Diversified Fixed Income Portfolio* vs. T-bills[1]



As of 31 December 2024. SOURCE: Bloomberg, Morningstar, PIMCO.

* To maximize data availability back to 1978 we use a simplified average advisor portfolio that is 40% Intermediate Core Plus / 40% Multisector Bond / 20% Short-term Bond. All Morningstar category indices respectively, rebalanced monthly.

Past performance is not a guarantee or a reliable indicator of future results.

All returns and yield data are based on monthly data. Cash: Citi3-month T-bill Index.

Hiking cycles are defined as periods where the Federal Reserve embarks on a sustained path of increasing the target Fed Funds rate and/or target range. We define the end of a hiking cycle as the month where the Fed reaches its peak policy rate for that cycle (i.e., it either pauses rate hikes or cuts). Hiking cycles include (start to peak), 1980 (Jul '80 to May '81), 1983 (Feb '83 to Aug '84), 1988 (Feb '88 to Mar '89), 1994 (Jan '94 to Feb '95), 1999 (May '99 to May '00), 2004 (May '04 to Jun '06) and 2015 (Nov '15 to Dec '18). Returns across hiking cycles are averaged together to create summarized period.

Double-digit fixed income returns have followed past Fed cuts

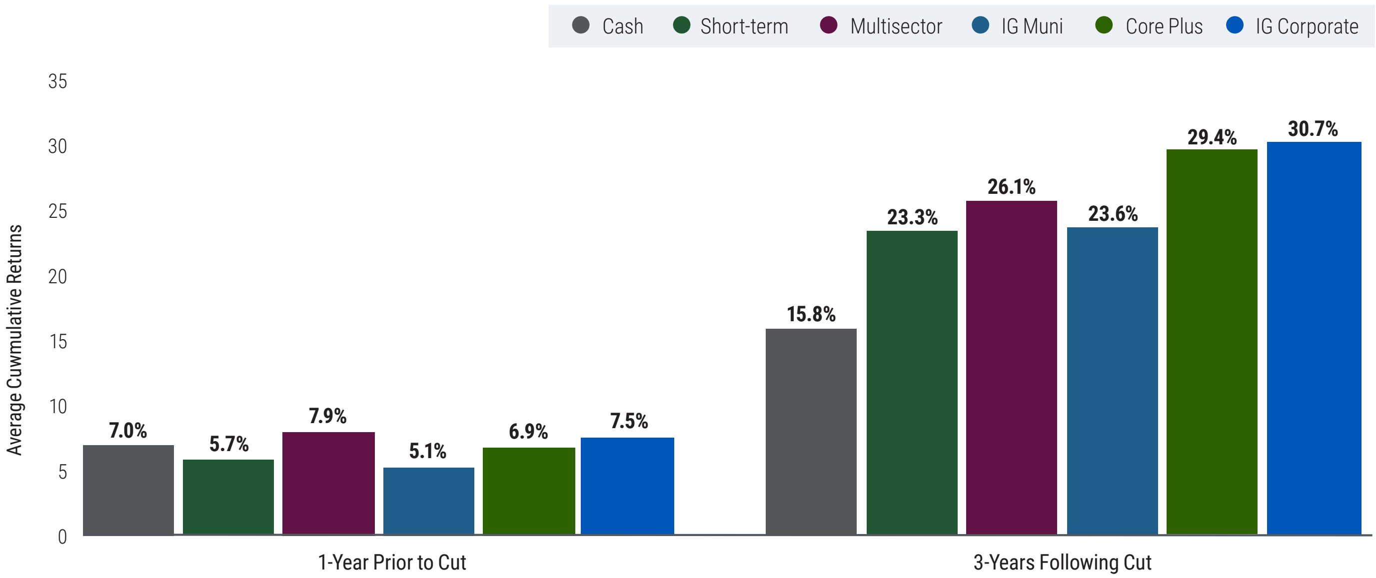
WHAT THE CHART SHOWS

It shows how cash outperforms in the 12-months before the Fed reached its peak policy rate. But a wide array of fixed income categories outperformed cash in the 36-months that followed.

WHAT IT MEANS FOR INVESTORS

Fixed income delivers attractive returns across categories following a Fed cut. Importantly, more interest-rate sensitive sectors like core plus tend to see the strong performance across cycles.

Total returns across fixed income following Fed Peaks



As of 31 December 2024. SOURCE: PIMCO, Morningstar, Bloomberg. Past performance is not a guarantee nor a reliable indicator of future performance.

T-Bills: FTSE 3-Month Treasury Bill Index; Short-Term: Morningstar Short-Term Bond Category; Muni Long: Morningstar Municipal Long Category; Core Plus: Morningstar Intermediate Core-Plus Category; Multisector: Morningstar Multisector Bond Category; Corporate: Morningstar Corporate Bond Category Hiking cycles are defined as periods where the Federal Reserve embarks on a sustained path of increasing the target Fed Funds rate and/or target range. We define the end of a hiking cycle as the month where the Fed reaches its peak policy rate for that cycle (i.e., it either pauses rate hikes or cuts). Hiking cycles include (start to peak), 1980 (Jul '80 to May '81), 1983 (Feb '83 to Aug '84), 1988 (Feb '88 to Mar '89), 1994 (Jan '94 to Feb '95), 1999 (May '99 to May '00), 2004 (May '04 to Jun '06) and 2015 (Nov '15 to Dec '18).

Investing in the **bond market** is subject to risks, including market, interest rate, issuer, credit, inflation risk, and liquidity risk. The value of most bonds and bond strategies are impacted by changes in interest rates. Bonds and bond strategies with longer durations tend to be more sensitive and volatile than those with shorter durations; bond prices generally fall as interest rates rise, and low interest rate environments increase this risk. Reductions in bond counterparty capacity may contribute to decreased market liquidity and increased price volatility. Bond investments may be worth more or less than the original cost when redeemed. Income from **municipal bonds** is exempt from federal income tax and may be subject to state and local taxes and at times the alternative minimum tax; a strategy concentrating in a single or limited number of states is subject to greater risk of adverse economic conditions and regulatory changes. **Equities** may decline in value due to both real and perceived general market, economic and industry conditions.

It is not possible to invest directly in an unmanaged index or Morningstar category. The categories shown are for illustrative purposes only, and reflects those U.S. funds and share classes with a specific investment approach as categorized by Morningstar. The categories may or may not include PIMCO investment products.

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